

STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC

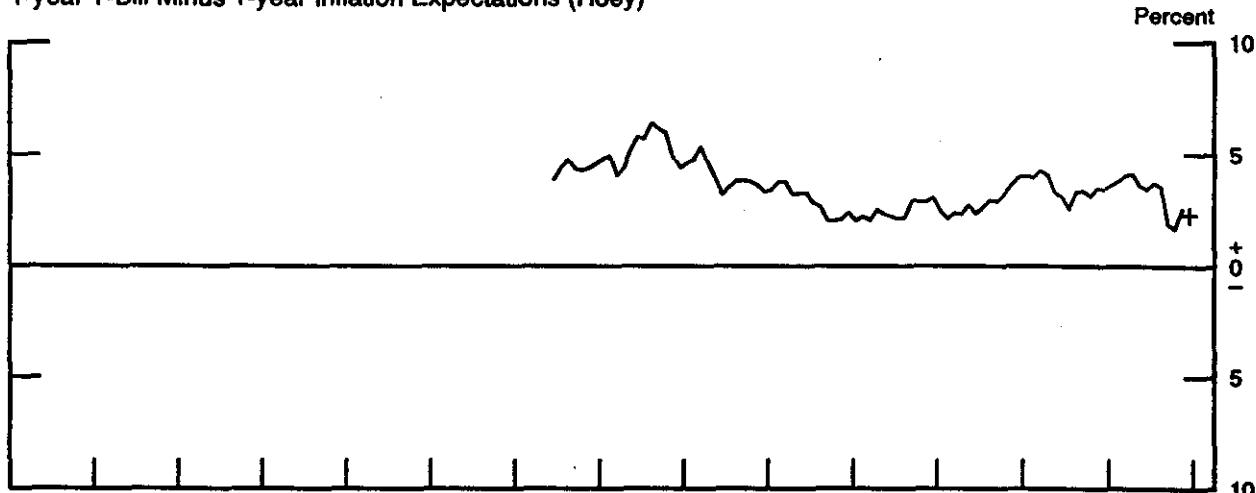
Financial Indicators

December 18, 1990

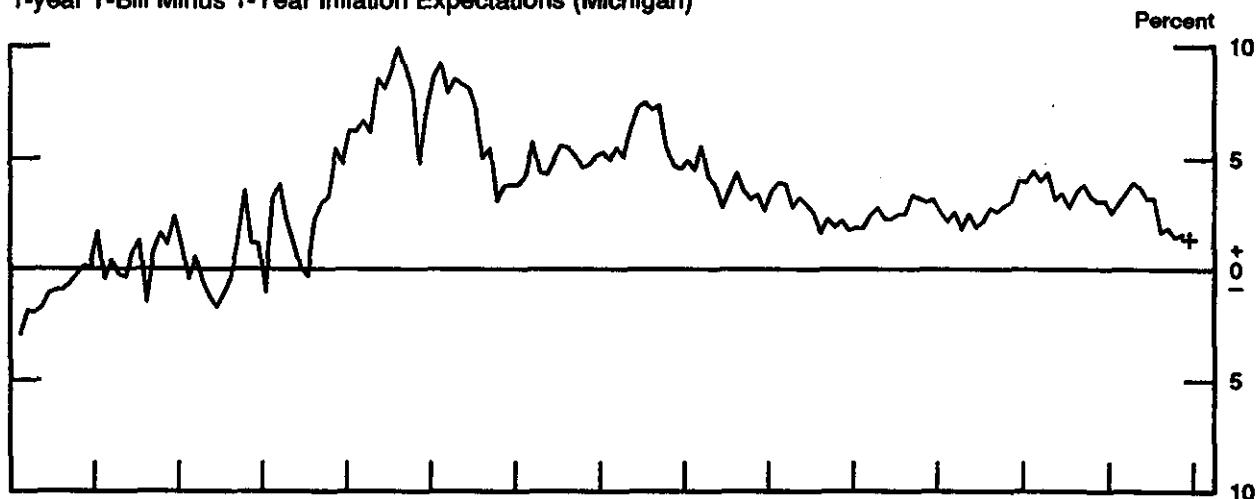
Chart 1

One-Year Real Interest Rates

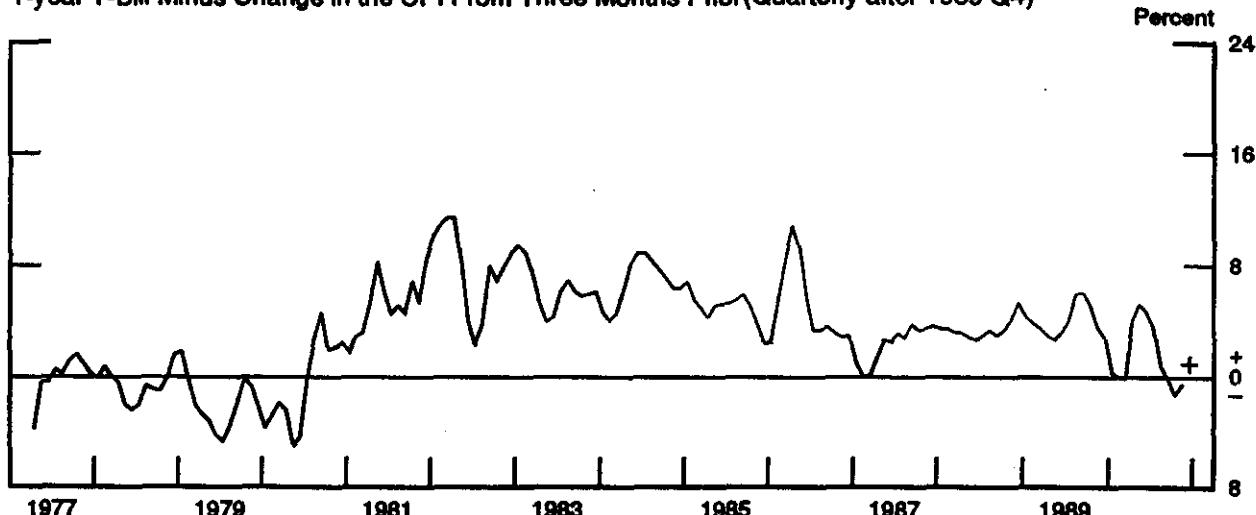
1-year T-Bill Minus 1-year Inflation Expectations (Hoey)



1-year T-Bill Minus 1-Year Inflation Expectations (Michigan)



1-year T-Bill Minus Change in the CPI From Three Months Prior(Quarterly after 1989 Q4)



Note: T-Bill is on a coupon equivalent basis.

+ Denotes most recent T-bill rate less most recent inflation expectation.

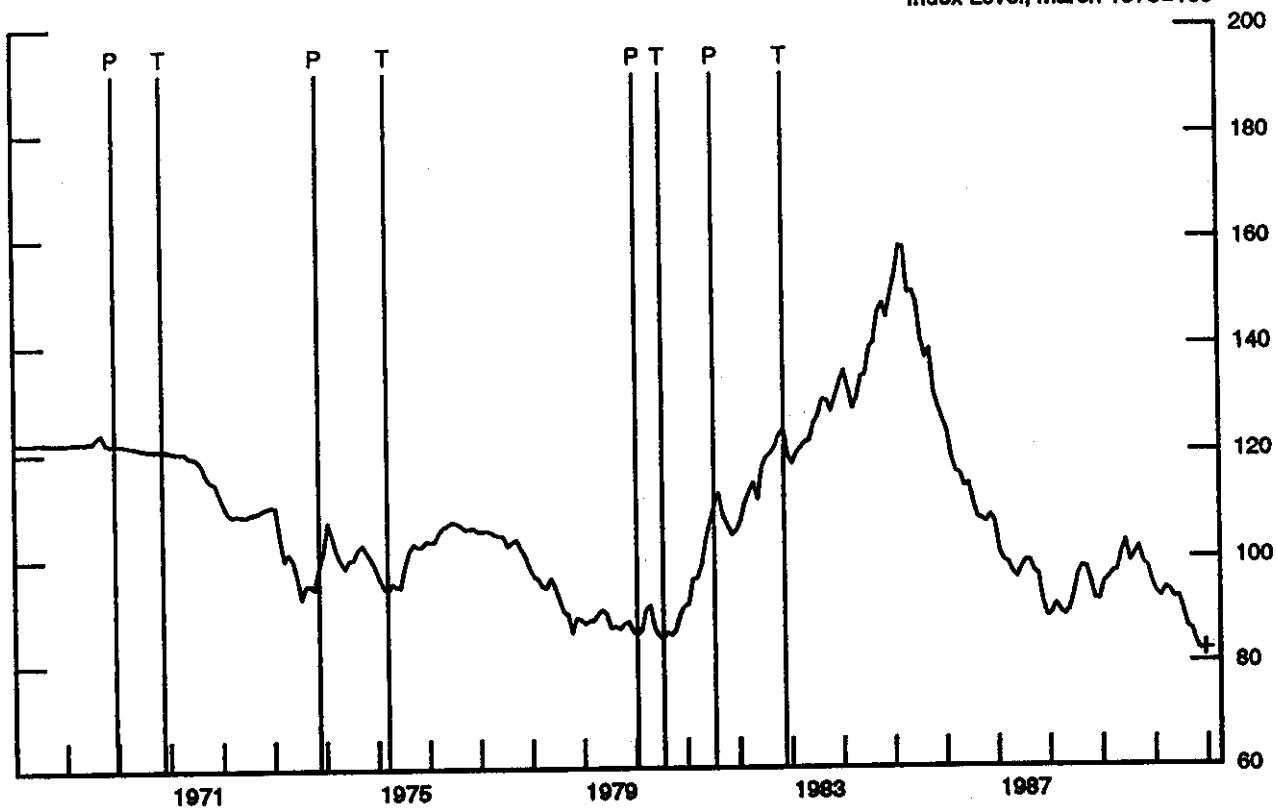
Chart 2

The Exchange Value of the Dollar

Nominal

G-10 Index

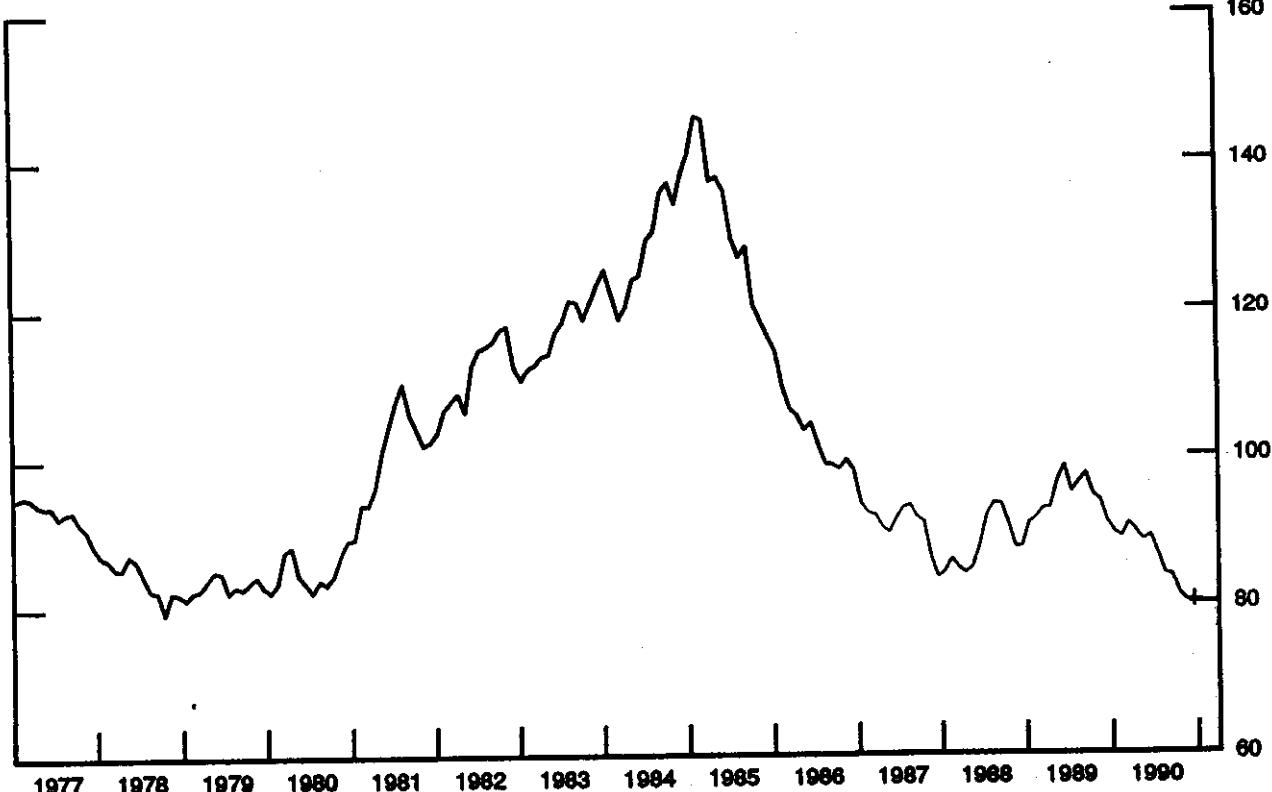
Index Level, March 1973=100



Monthly G-10 Index

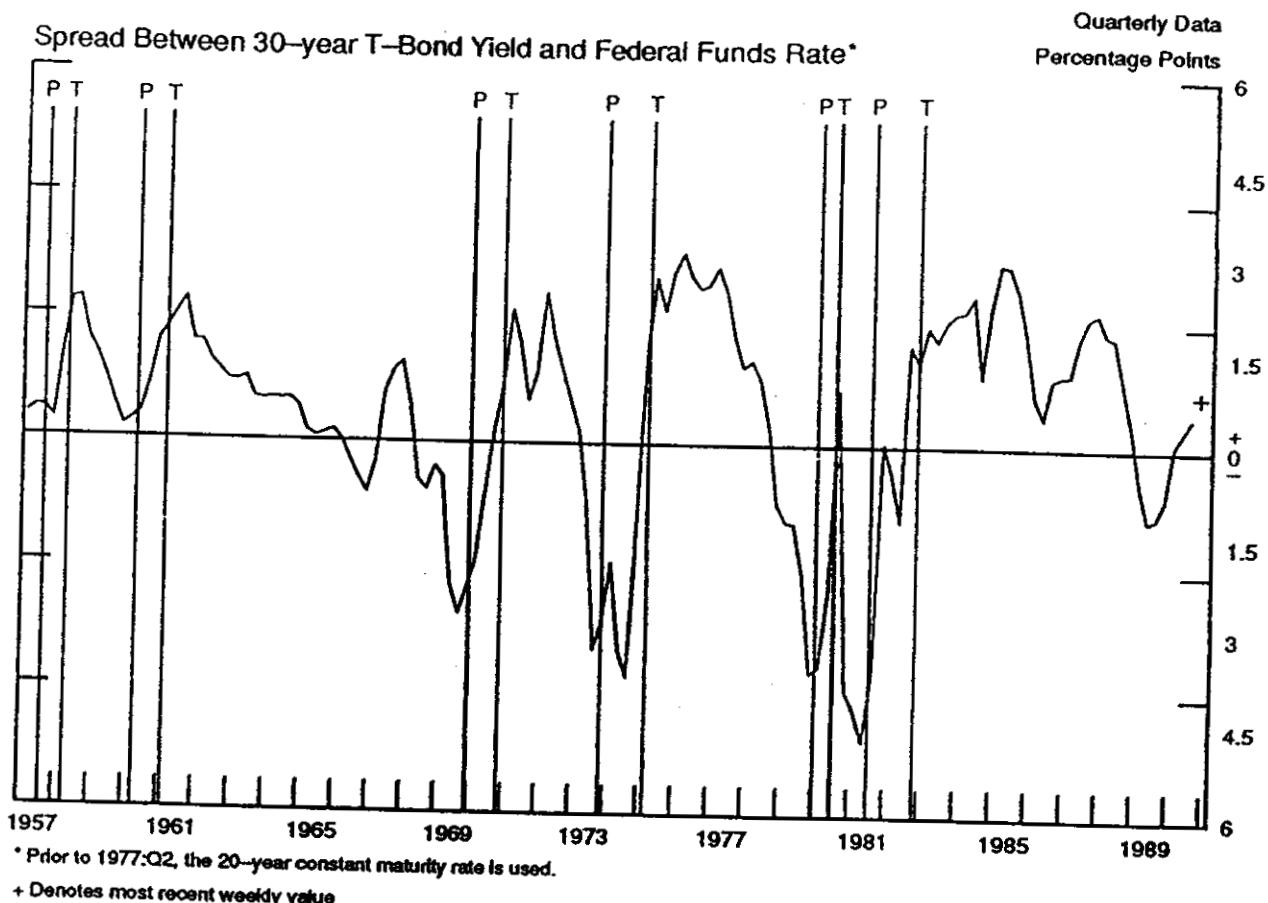
Real

Index Level (Deflated)



+ Denotes most recent weekly value

Chart 3 The Yield Curve



- * Prior to 1977:Q2, the 20-year constant maturity rate is used.
- + Denotes most recent weekly value

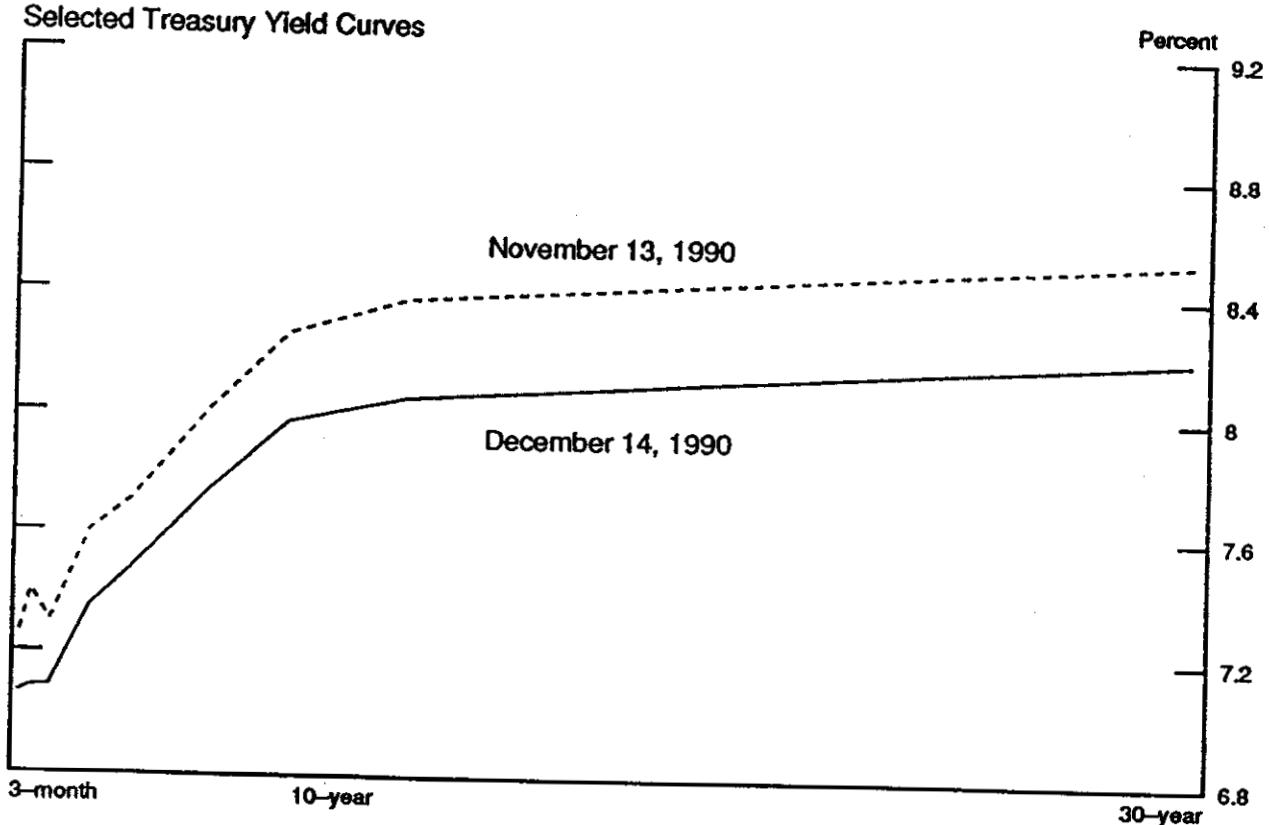


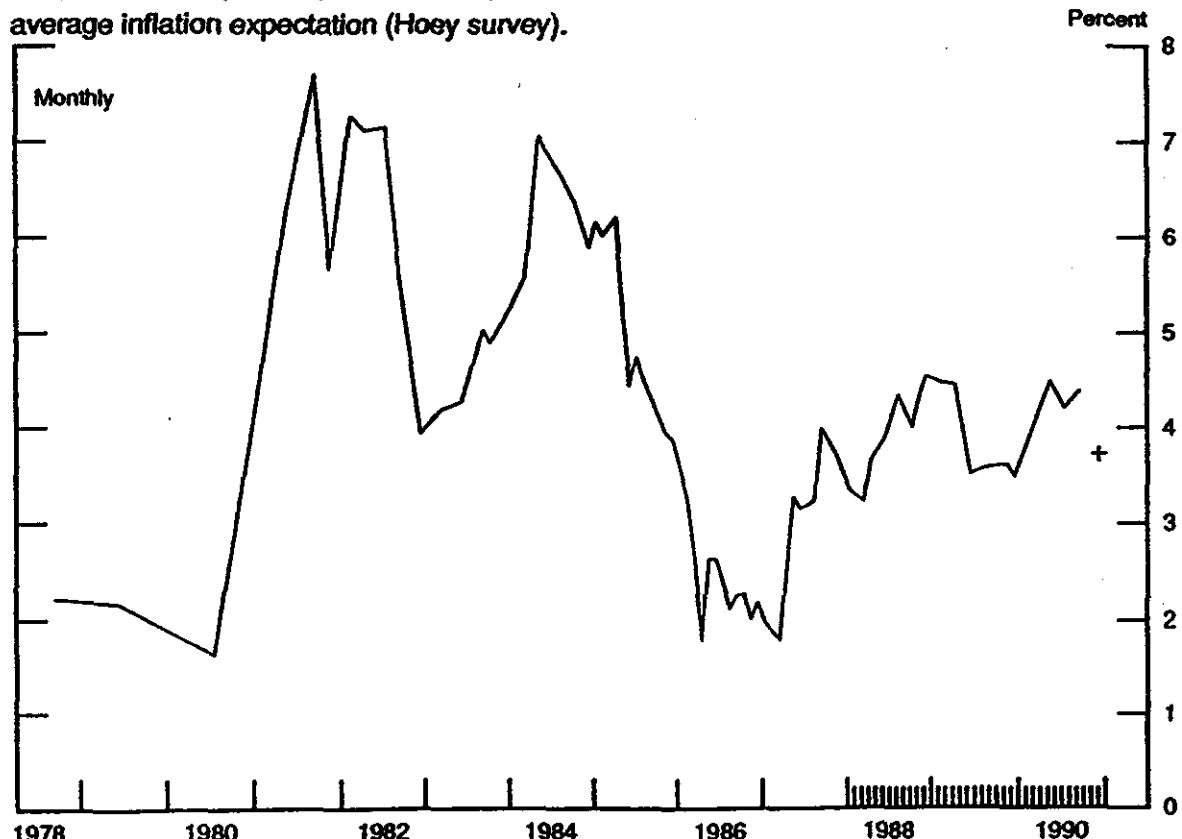
Chart 4

INFLATION EXPECTATIONS
(Hoey Survey)

| Survey Date | Next 12 months | First 5 years | Second 5 years | 10-year average |
|--------------------------------|----------------|---------------|----------------|-----------------|
| -----annual rate, percent----- | | | | |
| 1989: Q2 | 5.5 | 4.8 | 4.7 | 4.7 |
| Q3 | 4.9 | 4.5 | 4.6 | 4.5 |
| Q4 | 4.3 | 4.2 | 4.5 | 4.3 |
| 1990: Q1 | ND | ND | ND | ND |
| Q2 | 4.7 | 4.3 | 4.3 | 4.3 |
| Q3 | 5.0 | 4.4 | 4.4 | 4.4 |
| 1988: November | 4.8 | 4.6 | 4.7 | 4.7 |
| December | 5.0 | 4.6 | 4.6 | 4.6 |
| 1989: February | 5.3 | 4.7 | 4.7 | 4.7 |
| April | 5.7 | 4.8 | 4.6 | 4.7 |
| June | 5.4 | 4.8 | 4.8 | 4.8 |
| August | 4.9 | 4.5 | 4.6 | 4.5 |
| November | 4.3 | 4.1 | 4.5 | 4.3 |
| December | 4.3 | 4.2 | 4.5 | 4.4 |
| 1990: May | 4.7 | 4.3 | 4.3 | 4.3 |
| July | 4.2 | 4.1 | 4.4 | 4.3 |
| September | 5.9 | 4.6 | 4.4 | 4.5 |
| November | 4.8 | 4.4 | 4.4 | 4.4 |

LONG-TERM REAL INTEREST RATE

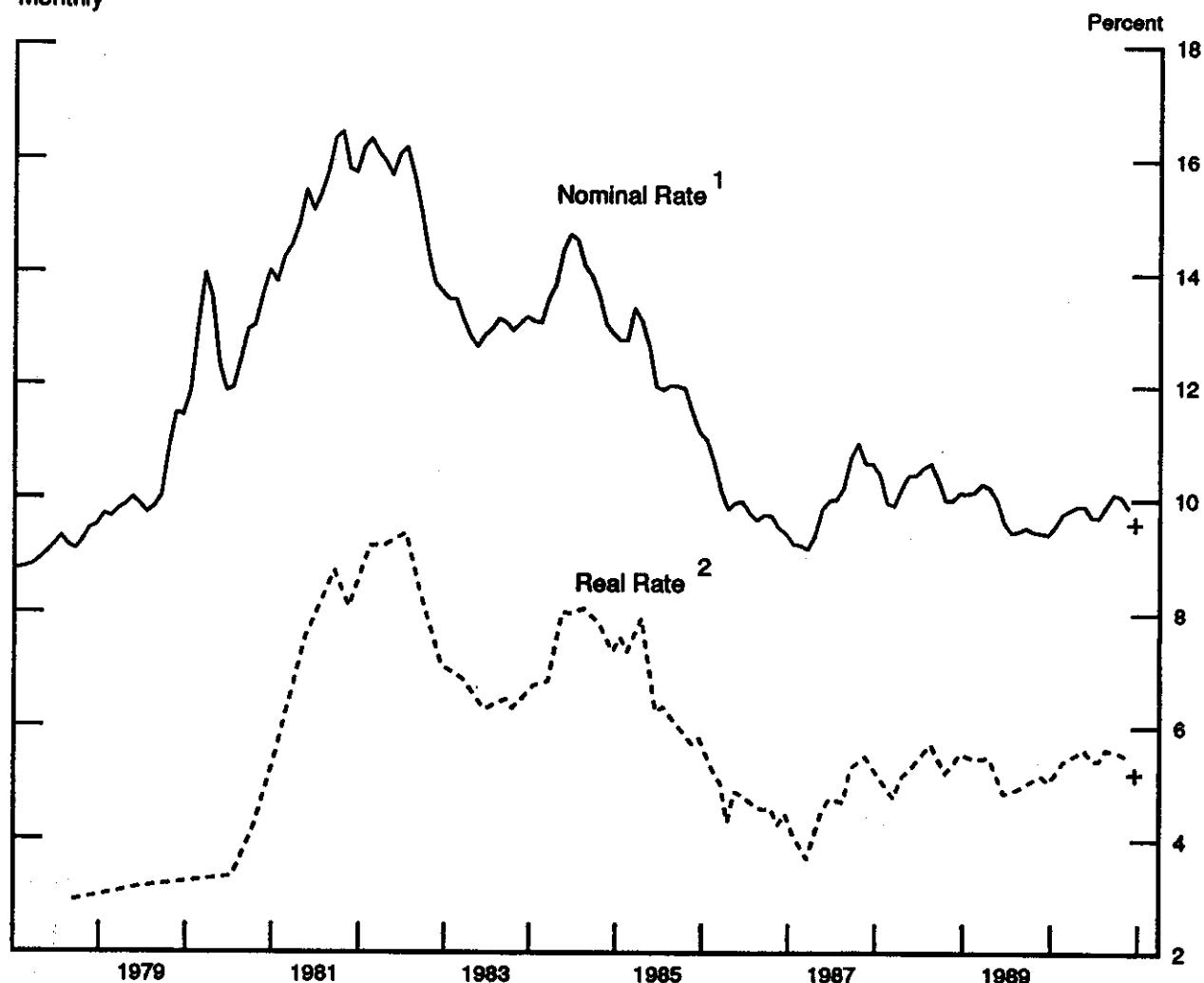
10-year Treasury bond yield less 10-year
 average inflation expectation (Hoey survey).



+ - Denotes most recent weekly value less most recent inflation expectation.

Chart 5
Nominal and Real Corporate Bond Rates

Monthly



1. Yield on Moody's A-rated corporate bonds, all industries.

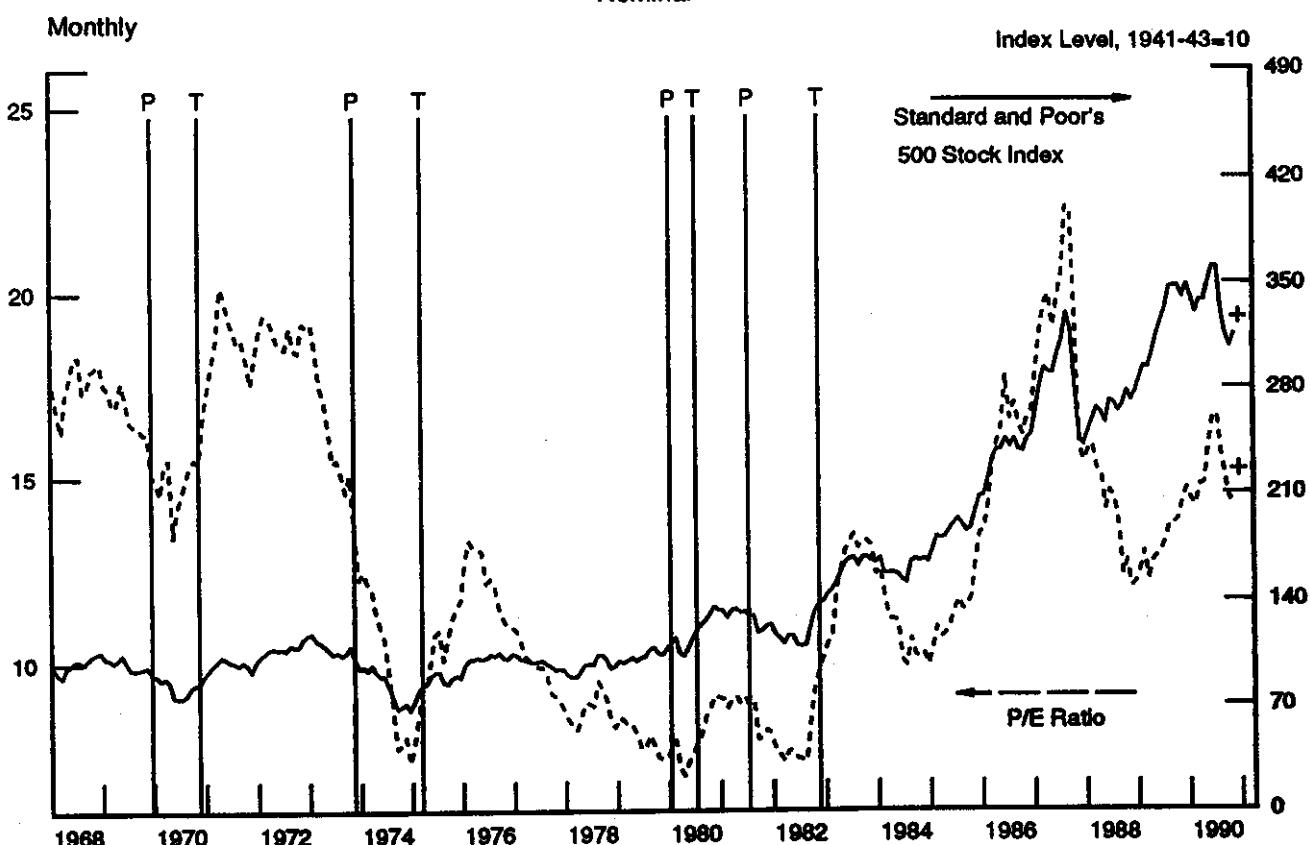
2. Nominal rate less Hoey survey of ten-year inflation expectations.

+ Denotes most recent weekly value.

Chart 6

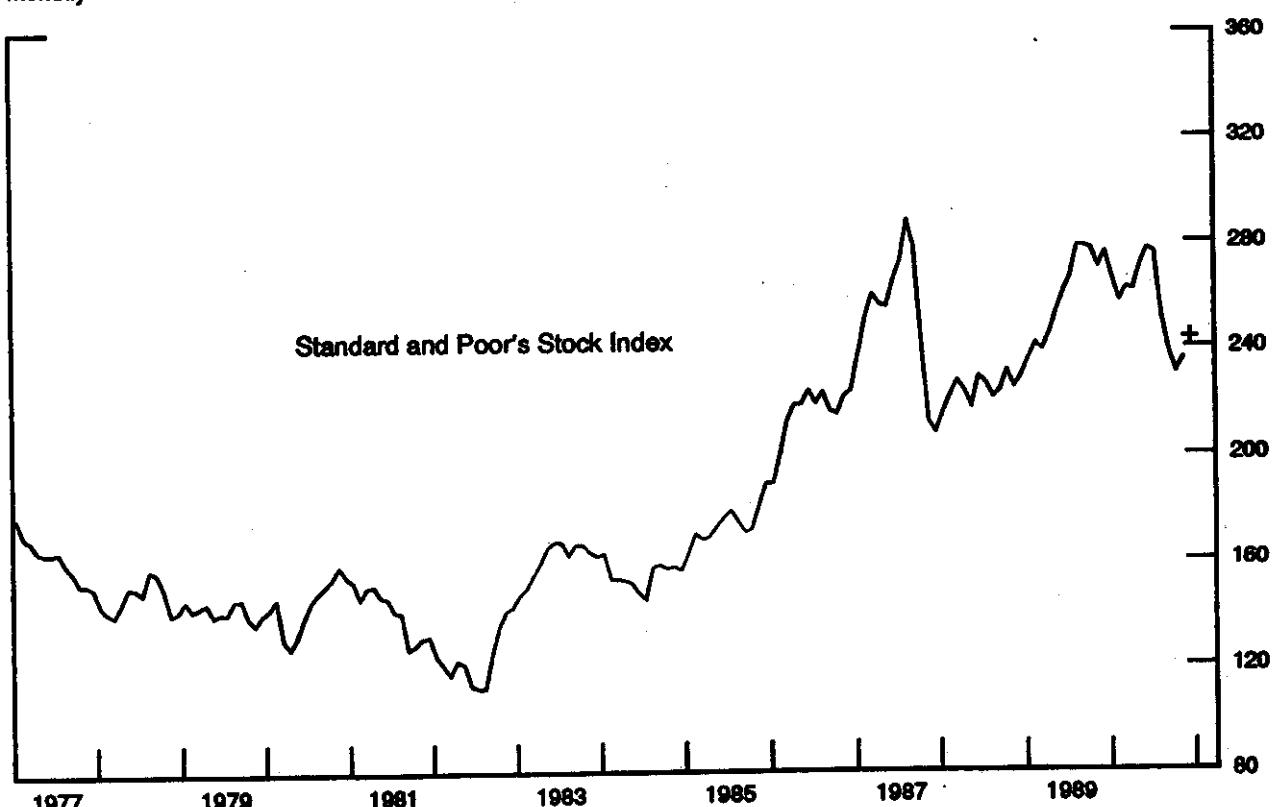
Stock Indices

Nominal



Real

Index Level (Deflated)

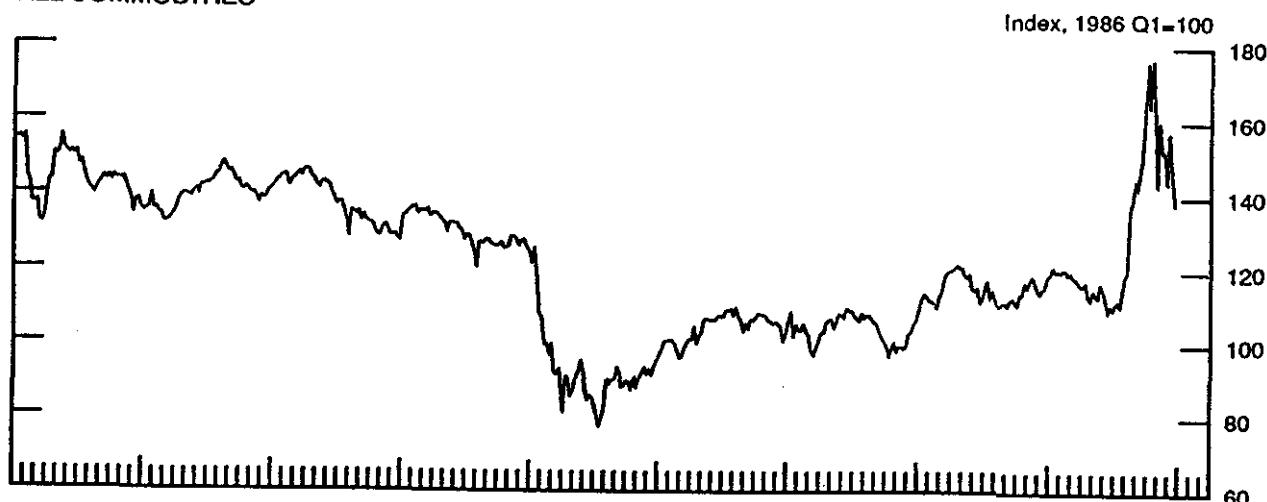


+ Denotes most recent weekly deflated value

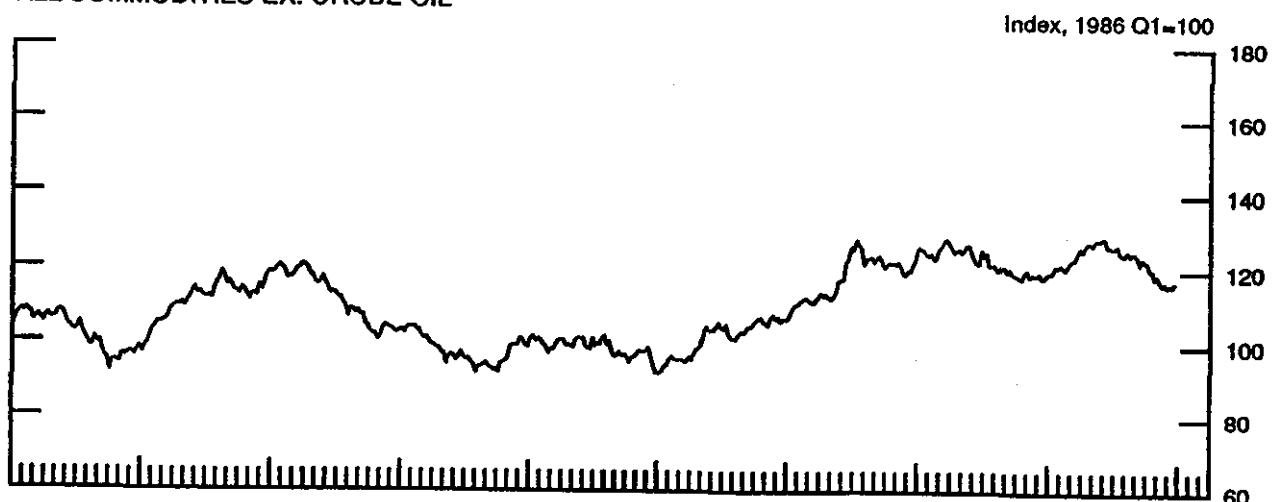
Chart 7

Experimental Price Index for 21 Commodities (Weekly)

ALL COMMODITIES



ALL COMMODITIES EX. CRUDE OIL



ALL COMMODITIES EX. FOOD AND CRUDE OIL

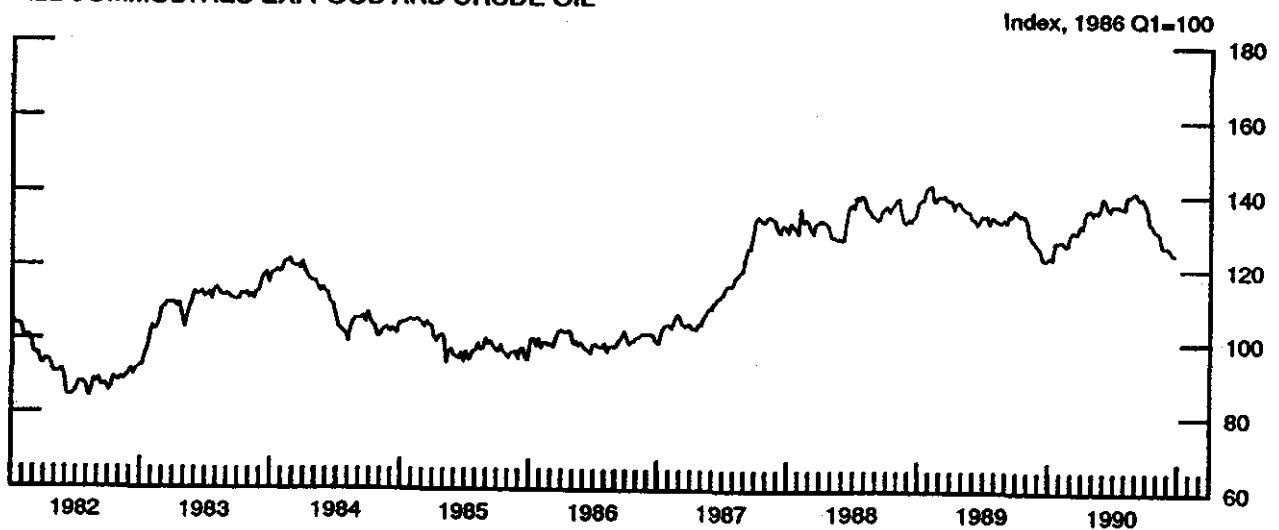
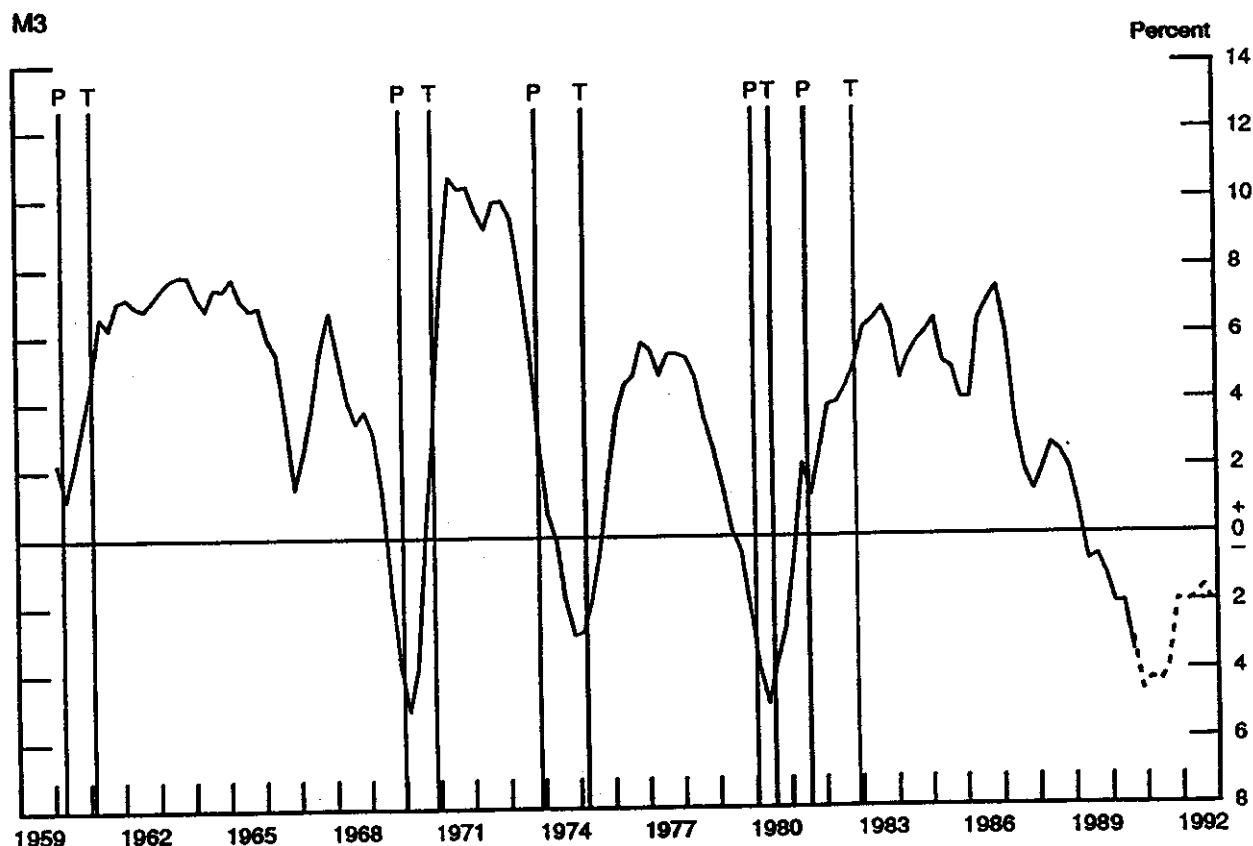
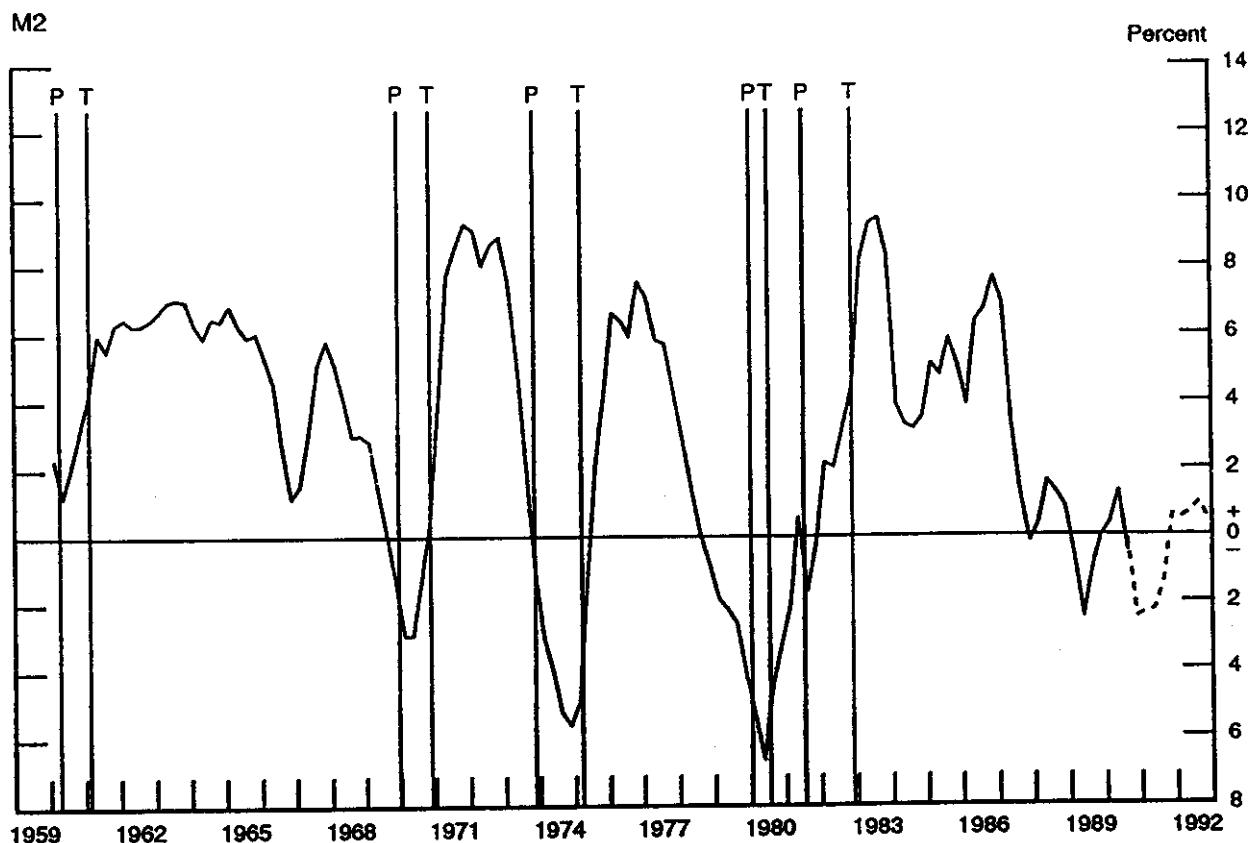


Chart 8

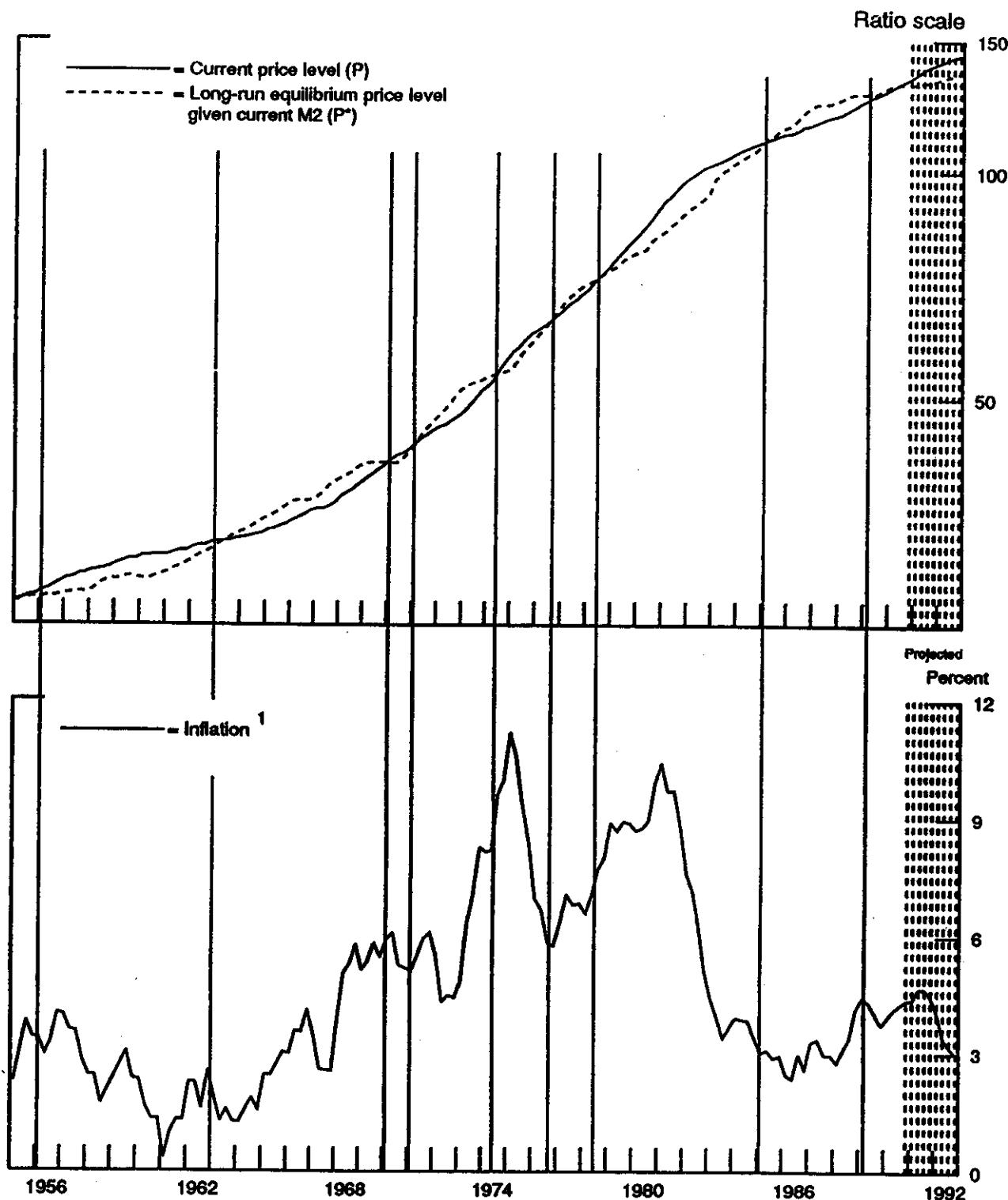
Growth of Real M2 and M3



NOTE: Four-quarter moving average deflated by the CPI.

Chart 9

Inflation Indicator Based on M2



1 Change in GNP implicit deflator over the previous four quarters.

Note: Vertical lines mark crossing of P and P*.

For 1990:Q4 to 1992:Q4 P* is based on the staff M2 forecast and P is simulated using the price gap model developed by Hallman, Porter and Small.